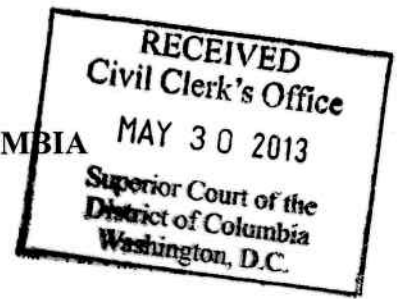


SUPERIOR COURT FOR THE DISTRICT OF COLUMBIA
Civil Division



D.C. Chartered Health Plan, Inc. (in Rehabilitation), by and through William P. White, Commissioner of the District of Columbia Department of Insurance, Securities and Banking, in his capacity as Rehabilitator, by his Special Deputy, Daniel L. Watkins
810 First Street, NE, Suite 701
Washington, D.C. 20002,

Plaintiff,

v.

Jeffrey E. Thompson
c/o David B. Killalea
Manatt, Phelps & Phillips, LLP
700 – 12th Street, NW
Washington, DC 20005

and

D.C. Healthcare Systems, Inc.
1101 – 15th Street, NW, No. 400
Washington, D.C. 20005

via its Registered Agent
Nicholas G. Karambelas
1201 Pennsylvania Ave., NW, No. 300
Washington, D.C. 20004,

Defendants.

Civil Action No.:

Judge:

Calendar No.:

13 - 0003752

COMPLAINT

Preliminary Statement

1. This civil action, filed on behalf of D.C. Chartered Health Plan, Inc. (in Rehabilitation) ("Chartered"), seeks over \$16 million in damages from Jeffrey E. Thompson ("Thompson") and D.C. Healthcare Systems, Inc. ("DCHSI") for breach of fiduciary duty, unjust enrichment, conversion, breach of contract, indemnification, and violation of statutory duties in connection with: (1) insufficiently documented cash transfers from Chartered, (2) unpaid

contractual obligations under a Tax Allocation Agreement, and (3) the loss of Chartered assets that secured a line of credit for DCHSI. After reasonable investigation, and on information and belief, Chartered alleges as follows:

Background – Chartered's Rehabilitation

2. Chartered is a health maintenance organization ("HMO"). Historically, Chartered's sole source of revenue was a Medicaid contract with the District of Columbia Department of Health Care Finance, under which Chartered provided Medicaid coverage to over 100,000 District residents. Chartered's Medicaid contract expired on April 30, 2013.

3. Chartered is regulated by the District of Columbia Department of Insurance, Securities and Banking ("DISB"). Chartered is subject to various provisions of the D.C. Code, including D.C. Code § 31-3851.01 et seq. (2001) which, in order to protect enrollees, medical providers, and the general public, requires HMOs such as Chartered to maintain certain capital.

4. Chartered's capital level has been well below the statutory minimums for over a year. Chartered's Board of Directors tried for much of 2012 to find a solution to Chartered's financial distress, without success. Adding to the company's troubles, on October 1, 2012, Chartered informed DISB that its chief financial officer and controller had been dismissed due to matters discovered in Chartered's audit. Unable to obtain additional capital or to find a buyer to rescue the company, Chartered's Board of Directors adopted a resolution on October 16, 2012, consenting to Chartered's rehabilitation under D.C. Code § 31-1301 et seq. (2001).

5. In light of Chartered's financial condition and consent resolution, on October 19, 2012, William P. White, Commissioner of DISB ("Commissioner"), filed an Emergency Consent Petition for an Expedited Order of Rehabilitation Pursuant to D.C. Official Code §§ 31-1310, 31-

1311, 31-1312 and 31-3420(a) on or Before October 23, 2012 ("Petition") in the Superior Court for the District of Columbia, Civil Action No. 2012 CA 008227.

6. The Superior Court granted the Petition that same day and appointed the Commissioner as Chartered's Rehabilitator in an Emergency Consent Order of Rehabilitation (a true and accurate copy of which is attached as Exhibit A).

7. The Rehabilitator has examined Chartered's books and records and based on the investigation to date, files this action against Thompson and DCHSI.

8. All conditions precedent to the claims stated in this Complaint have been performed, have occurred, or have been excused.

Parties

9. Chartered is incorporated and has its principal place of business in the District of Columbia.

10. Chartered has been in Rehabilitation since October 19, 2012, with the Commissioner serving as Chartered's Rehabilitator and Daniel L. Watkins as Special Deputy to the Rehabilitator. The Commissioner and his Special Deputy are referred to interchangeably herein as the "Rehabilitator."

11. The Rehabilitator brings this action both (a) in his capacity as Rehabilitator and (b) on behalf of Chartered pursuant to D.C. Code § 31-1312(d) (2001) and pursuant to the October 19, 2012 Emergency Consent Order of Rehabilitation issued by the District of Columbia Superior Court that authorizes the Rehabilitator to "pursue all appropriate claims and legal remedies on behalf of Chartered."

12. Thompson is a resident of the District of Columbia and the sole shareholder of DCHSI, Chartered's parent company. At all times relevant to this Complaint, Thompson controlled Chartered as Chairman of its Board of Directors and as DCHSI's sole shareholder.

13. DCHSI is incorporated in the District of Columbia and is the parent and sole shareholder of Chartered.

Jurisdiction and Venue

14. The Court has subject matter jurisdiction over this case pursuant to D.C. Code §§ 31-1303(c)(3), (4) & (5) (2001).

15. The Court has personal jurisdiction over Thompson and DCHSI pursuant to D.C. Code § 13-422 because Thompson is domiciled in the District of Columbia and because DCHSI is organized under the laws of and maintains its principal place of business in the District. The Court also has personal jurisdiction over Thompson and DCHSI pursuant to D.C. Code § 13-423, and venue is proper in this Court, because they have committed acts within the District of Columbia that give rise to the claims in this Complaint.

Statement of Facts

The Cash Transfers

16. Chartered Family Health Center ("CFHC") is a former affiliate of Chartered that ceased operations in February 2011. Thompson controlled CFHC and was the only person with signing authority on its bank account(s).

17. In or about September, October, and November 2011, Thompson caused Chartered to make transfers of cash, totaling \$850,000, to CFHC (the "2011 Transfers"). Thompson did not create or provide Chartered with documentary support for these transfers when they were made.

18. Chartered initially carried the transferred amounts from the 2011 Transfers on its books as receivables from CFHC, but wrote the receivables off as bad debts in its 2011 unaudited financial statements filed with DISB.

19. CFHC's bank statements and general ledger indicate that at least \$625,000 of the \$850,000 that Thompson caused Chartered to send to CFHC in the 2011 Transfers was then transferred to DCHSI.

20. On or about December 20, 2011, Thompson caused Chartered to transfer another \$300,000 to DCHSI, purportedly for the payment of federal income taxes. But Chartered experienced an approximately \$15 million operating loss for that year and therefore had no federal tax liability.

21. Chartered's president and chief executive officer in October 2012, and the Rehabilitator in January 2013, demanded that DCHSI provide satisfactory documentation for or reimbursement of these transfers. DCHSI has provided certain information, but nothing sufficient to explain or justify the transfers of cash out of Chartered.

22. On information and belief, the transfers described above in paragraphs 16 through 20 deprived Chartered of needed resources and unjustly enriched DCHSI and, in turn, Thompson.

The Tax Allocation Agreement

23. On or about November 8, 2006, DCHSI and Chartered entered into a Tax Allocation Agreement ("TAA"), a true and accurate copy of which is attached hereto as Exhibit B.

24. Pursuant to the TAA, DCHSI and Chartered agreed that (a) the two of them constituted an "affiliated group" under § 1504(a) of the Internal Revenue Code and, as such,

would join in the filing of consolidated federal income tax returns; (b) if requested by DCHSI, each "Member" of the affiliated group would make periodic "Estimated Tax Payments" to DCHSI (or direct to the relevant taxing authority) equal to the estimated tax payments that would be payable by such Member individually; (c) each Member would make a "Balance Payment" to DCHSI equal to the tax payment that would be payable by such Member individually each year; and (d) DCHSI would pay to each Member the excess, if any, of the sum of the Estimated Tax Payments paid by such Member over such Member's "Separate Tax Liability" within sixty (60) days after the due date of the affiliated group's tax return each year (taking into account any extensions).

25. The Rehabilitator has calculated that, as of December 31, 2011, DCHSI owes Chartered approximately \$4 million under the TAA.

26. Because Chartered experienced losses in 2011 and 2012, and is expected to experience losses in 2013, it should have no income tax liabilities that would offset the approximately \$4 million owed by DCHSI to Chartered, and Chartered may become entitled to additional amounts under the TAA due to potential refunds or credits associated with operating losses or other tax attributes.

27. The Rehabilitator has demanded that DCHSI pay Chartered amounts owed under the TAA. DCHSI has not complied.

The Asset Pledge and Indemnification Agreement

28. On or about October 10, 2008, Cardinal Bank made available to DCHSI a line of credit in the maximum principal amount of \$12 million. DCHSI in turn provided Cardinal Bank with a promissory note for the line of credit amount. As conditions precedent to extending the line of credit to DCHSI, Cardinal Bank required that (a) Chartered and Thompson, jointly and

severally, execute and deliver a Guaranty of Payment to Cardinal Bank ("Guaranty"), and (b) Chartered enter into a Pledge, Assignment and Security Agreement ("Pledge Agreement") to secure Chartered's full and prompt performance under the Guaranty and DCHSI's repayment of the line of credit. Thompson therefore caused Chartered to execute the Pledge Agreement and to pledge securities to Cardinal Bank as collateral for the line of credit to DCHSI.

29. Thompson also executed an Indemnification and Holds Harmless Undertaking (the "Indemnification Agreement," a true and accurate copy of which is attached hereto as Exhibit C).

30. The Indemnification Agreement irrevocably and unconditionally holds Chartered harmless and indemnifies Chartered for any moneys it is or may be obligated to pay in the event Cardinal Bank exercises its rights against the collateral under the Pledge Agreement, including any liquidation of the collateral. The Indemnification Agreement further states that Thompson "waives any rights or defenses he has or may have under any statute, common law or equitable theory which has or may have the effect of enabling him to avoid, restrict or impair any liability or obligation that arises from or is incident to this Undertaking."

31. Chartered was released from the Guaranty in 2012. Nevertheless, under the Pledge Agreement, Cardinal Bank continued to hold Chartered assets as collateral and Chartered could not use those assets for its own purposes.

32. On or about April 26, 2013, Cardinal Bank cited events of default and accelerated the outstanding amount due from DCHSI.

33. On or about May 16, 2013, Cardinal Bank liquidated the assets pledged by Chartered to pay off the outstanding balance that DCHSI owed under its line of credit. As a result, Chartered has now lost approximately \$12 million.

34. Under the terms of the Indemnification Agreement, there is no obligation to provide any notice or demand as a predicate for Thompson's liability and Thompson now owes Chartered the sums lost due to Cardinal Bank's liquidation of Chartered's pledged assets.

CAUSES OF ACTION

Count I – Breach of Fiduciary Duty

(against Thompson)

35. The Rehabilitator incorporates by reference the allegations in paragraphs 1 through 34.

36. As Chair of Chartered's Board of Directors, Thompson owed fiduciary duties to the company.

37. Thompson has breached his fiduciary duties owed to Chartered by acting to further the interests of himself and DCHSI to Chartered's detriment.

38. Chartered has been damaged as a proximate result of Thompson's breaches of his fiduciary duties.

Count II – Unjust Enrichment

(against DCHSI)

39. The Rehabilitator incorporates by reference the allegations in paragraphs 1 through 34.

40. At least \$925,000 of Chartered's cash was transferred to DCHSI. DCHSI knew of the transfer, but accepted and retained the cash despite demands for its return. DCHSI has been unjustly enriched by the cash transfers.

41. DCHSI has retained at least approximately \$4 million owed to Chartered for tax obligations, despite demands for payment. DCHSI has been unjustly enriched by retaining these amounts.

Count III – Conversion
(against Thompson and DCHSI)

42. The Rehabilitator incorporates by reference the allegations in paragraphs 1 through 34.

43. DCHSI and Thompson have unlawfully exercised dominion and control over Chartered's assets for their own use and benefit, in denial of Chartered's rights to those assets.

44. Chartered has been damaged as a proximate result of DCHSI's and Thompson's conversion.

Count IV – Breach of Contract
(against DCHSI)

45. The Rehabilitator incorporates by reference the allegations in paragraphs 1 through 27.

46. The TAA is a valid and enforceable contract.

47. DCHSI has breached its obligations to Chartered under the TAA.

48. Chartered has been damaged as a proximate result of DCHSI's breach.

Count V – Indemnification
(against Thompson)

49. The Rehabilitator incorporates by reference the allegations in paragraphs 1 through 34.

50. Thompson has a contractual duty to indemnify Chartered under the Indemnification Agreement for the loss of the asset liquidated by Cardinal Bank.

51. Thompson has not satisfied his contractual duty and Chartered has been damaged as a result.

Count VI – Violation of Statutory Duty to Cooperate Under D.C. Code § 31-1305 (2001)

(against Thompson and DCHSI)

52. The Rehabilitator incorporates by reference the allegations in paragraphs 1 through 34.

53. Under D.C. Code § 31-1305 (2001), DCHSI and Thompson are obligated to cooperate with the Rehabilitator by, among other things, responding promptly to inquiries and making available any books, accounts, documents, and other records or information of or pertaining to Chartered that are within their possession or custody or under their control.

54. DCHSI and Thompson have not cooperated with the Rehabilitator as they are obligated to do under D.C. Code § 31-1305 (2001).

WHEREFORE, the Rehabilitator requests

- a) judgment against Thompson under Count I for Chartered's damages, plus allowable interest and costs according to proof;
- b) judgment against DCHSI under Count II for Chartered's damages or, in the alternative, ordering restitution, plus allowable interest and costs according to proof;
- c) judgment against Thompson and DCHSI under Count III for Chartered's damages, plus allowable interest and costs according to proof;

- d) judgment against DCHSI under Court IV for Chartered's damages, plus allowable interest and costs according to proof;
- e) judgment against Thompson under Count V for Chartered's damages, plus allowable interest and costs according to proof;
- f) judgment against Thompson and DCHSI under Count VI for Chartered's damages, plus fines or civil penalties, and allowable interest and costs according to proof;
- g) declaratory and injunctive relief against DCHSI and Thompson (i) declaring that they are obligated to cooperate with the Rehabilitator as set forth in D.C. Code § 31-1305 (2001), and (ii) ordering them to respond to the Rehabilitator's inquiries and to make available to the Rehabilitator all books, accounts, documents, and other records or information of or pertaining to Chartered that are within their possession or custody or under their control; and
- h) all other relief as the Court deems just and appropriate under the circumstances.

RESPECTFULLY SUBMITTED,

TROUTMAN SANDERS, LLP



Prashant K. Khetan, Esquire
Bar Number 477636
Troutman Sanders LLP
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Attorneys for the Plaintiff

Of Counsel:

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SUPERIOR COURT FOR THE DISTRICT OF COLUMBIA
Civil Division

DISTRICT OF COLUMBIA,
Department of Insurance, Securities
and Banking,
810 First Street, NE, Suite 701
Washington, DC 20002

Petitioner,

v.

DC CHARTERED HEALTH PLAN, INC.,
1205 15th Street, NW
Washington, D. C. 20005,

Respondent.

Civil Action No.:

Judge:

Calendar No.:

2012-8227

COPY

Natasha E. Byrd
Court Clerk
Judge-in-Chambers

Deputy Clerk

EMERGENCY CONSENT ORDER OF REHABILITATION

Upon consideration of the *Emergency Consent Petition for an Expedited Order of Rehabilitation pursuant to D.C. Official Code §§ 31-1303, 1310 - 1312 and 3420* and the entire record herein, it is, by the Court, this ____ day of October 2012,

ORDERED: That the *Emergency Consent Petition for an Expedited Order of Rehabilitation* be, and is hereby, **GRANTED**; and it is

FURTHER ORDERED: That the Commissioner, and his successors in office, are appointed Rehabilitator of Chartered pursuant to D.C. Official Code § 31-1311 (2001 ed.); and it is

FURTHER ORDERED: That the Commissioner, and his successors in office, shall be vested with all appropriate and necessary powers provided under chapter 13 of Title 31 of the D.C. Official Code, including:

- (i) All powers of the directors, officers and managers of Chartered, whose authority is suspended except as may be re-delegated by the Rehabilitator.
- (ii) Authority to take possession and control of Chartered's assets and administer them under the general supervision of the Court.
- (iii) Authority to take such action as deemed necessary or appropriate to reform and revitalize Chartered.
- (iv) Authority to pay claims.
- (v) Authority to petition courts for stay of litigation pending against Chartered.
- (vi) Authority to accept new or renewal business or extension of Chartered's contracts.
- (vii) Authority to accept, direct, manage and pay employees and pay all other expenses necessary to the rehabilitation.
- (viii) Authority to appoint and compensate from Chartered's assets one or more special deputies (who shall have all the powers and responsibilities of the Rehabilitator granted under the statute) and to engage and compensate counsel, consultants, financial advisors, clerks, and assistants deemed necessary to the rehabilitation.
- (ix) Authority to pursue all appropriate claims and legal remedies on behalf of Chartered.
- (x) Authority to avoid fraudulent transfers under D.C. Official Code §§ 31-1324 & 1325.
- (xi) Authority to enjoin any person from interfering with the Rehabilitator in possession and control of the property, books, records and all other assets of Chartered.

FURTHER ORDERED: That title of all assets of Chartered is vested in the Rehabilitator by operation of law.

FURTHER ORDERED: That the Rehabilitator shall seek Court approval of any compromise or settlement of Chartered's claim pending before the District of Columbia's Contract Appeals Board and the contemplated claim regarding capitation rates for the Alliance Program.

FURTHER ORDERED: That officers, directors, employees, agents and others are directed to cooperate with the Rehabilitator as provided by D.C. Official Code § 31-1305.

FURTHER ORDERED: That the Rehabilitator may seek to enjoin the initiation of lawsuits, dissipation of bank accounts, obtaining of preferences, or any other interference with the Rehabilitator.

FURTHER ORDERED: That the Rehabilitator file periodic accountings with the Court, no less frequently than semi-annually.

FURTHER ORDERED: That the Rehabilitator submit a plan of rehabilitation of Chartered for Court approval, if one is feasible. If the Rehabilitator determines that a rehabilitation plan is not feasible, the Rehabilitator shall submit a report to the Court which states the basis for such determination.

FURTHER ORDERED: That entry of this Order of Rehabilitation shall not constitute an anticipatory breach of any contracts of Chartered nor shall it be grounds for retroactive revocation or retroactive cancellation of any contracts of Chartered, unless the revocation or cancellation is done by the Rehabilitator pursuant to D.C. Official Code § 31-1312.

FURTHER ORDERED: That this Court retains jurisdiction in this matter during Chartered's rehabilitation, and for purposes of granting such other and further relief as this cause and the interest of the policyholders, creditors, or the public may require.


Judge, Superior Court

Copies to:

E. Louise R. Phillips
Assistant Attorney General
Office of the Attorney General
441 Fourth Street, N.W., Ste. 650N
Washington, D.C. 20001

Mr. Maynard G. McAlpin
President and CEO
DC Chartered Health Plan, Inc.
1025 15th Street, NW
Washington, DC 20005

William P. White, Commissioner
c/o Adam H. Levi
DISB, Office of the General Counsel
810 First St., NE, Suite 701
Washington, D. C. 20002

A. Scott Bolden, Esquire
Reed Smith, LLP
1301 K Street, NW
Suite 1100, East Tower
Washington, DC 20005

**DC HEALTHCARE SYSTEMS, INC. AND SUBSIDIARY
TAX ALLOCATION AGREEMENT**

THIS AGREEMENT is entered into as of NOVEMBER 8, 2006, by and between DC Healthcare Systems, Inc. (herein referred to as "DCHSI") and DC Chartered Health Plan, Inc. ("Chartered") its wholly-owned subsidiary.

WHEREAS, DCHSI is the parent of an "affiliated group" of corporations (herein referred to as the "DCHSI Group"), as defined in section 1504(a) of the Internal Revenue Code of 1986, as amended (herein referred to as the "Code") (Chartered in the DCHSI Group herein referred to individually as a "Member" and collectively as the "Members");

WHEREAS, the DCHSI Group joins in the filing of a consolidated federal income tax return and whereas under section 1501 of the Code and applicable Treasury Regulations, the Members are required to be included in such consolidated return with the result that the tax liability of the DCHSI Group has been and will be determined by consolidating the income, expense, gains, losses and credits of all Members; and

WHEREAS, the DCHSI and Chartered desire to document their agreement to provide that DCHSI shall pay the income tax liability of the DCHSI Group and, concurrently therewith, ~~charge the Members with an amount equal to such Member's Separate Tax Liability (as defined in Paragraph 1) as determined in this Agreement.~~

NOW, THEREFORE, the DCHSI and Chartered hereby agree effective as of the tax year beginning April, 30, 2001 and thereafter as follows:

1. SEPARATE TAX LIABILITY

For purposes of this Agreement, the "Separate Tax Liability" of each Member for each taxable year, or part thereof, during which such Member is a member of the DCHSI Group shall be computed as if such Member were not included in the DCHSI Group but instead filed a separate federal income tax return for such year, provided that certain items of income, gain, deduction, loss and credit of each Member shall be taken into account by reference to Section 1502 of the Code and applicable Treasury Regulations promulgated thereunder, without treating each Member as filing such a separate return. A Member's Separate Tax Liability shall take into account, among other things, all carryovers and carrybacks of net operating losses, arising in connection with the sustaining of its separate company net operating loss or the earning of any applicable credits, provided that the amount of each Member's net operating loss carryovers or carrybacks for any taxable year shall be reduced by the amount of each payment such Member received pursuant to Paragraph 3 with respect to the immediately preceding year.

2. TAX PAYMENTS

A. Estimated Tax Payments. If requested by DCHSI, each Member shall make periodic payments ("Estimated Income Tax Payments") to DCHSI (or directly to the relevant taxing authority for the benefit of DCHSI) in such amounts as shall be equal to the estimated tax payments that would be payable by such Member if it were not included in the DCHSI Group but instead filed a separate federal income tax return for each year based on such

Member's Separate Tax Liability. Each Estimated Tax Payment shall be due no later than five (5) days prior to the respective date on which such payment would be due from such Member if it were not included in the DCHSI Group.

B. Balance Payments. Each Member shall pay to DCHSI an amount equal to the tax payment that would be payable by such Member if it were not included in the DCHSI Group but instead filed a separate federal income tax return for each year with respect to such Member's Separate Tax Liability (a "Balance Payment"). Each Balance Payment shall be due and payable within sixty (60) days.

C. Excess Payments. DCHSI shall pay to each Member the excess, if any, of (i) the sum of the Estimated Income Tax Payments paid by such Member during each taxable year pursuant to Paragraph 2(A), over (ii) the amount of such Member's Separate Tax Liability for such taxable year (an "Excess Payment"). Each Excess Payment shall be due within sixty (60) days after the due date of the relevant DCHSI Group consolidated return for each respective taxable year (taking into account any extensions).

3. LOSSES

If a Member's Separate Tax Liability for any taxable year reflects a net operating ~~loss, capital loss, tax credit or similar tax benefit, including carryovers and carrybacks ("Tax~~ Attributes"), in each case determined by reference to Section 1552(a)(2) of the Code and Treasury Regulation Section 1.1502-33(d)(3), which DCHSI reasonably determines is actually utilized in the DCHSI Group's consolidated return, then, within sixty (60) days after the due date of the relevant DCHSI Group consolidated return for such taxable year (taking into account any extensions), DCHSI shall pay to such Member an amount equal to the current tax savings or tax benefit actually realized by the DCHSI Group with respect to the use of such Member's Tax Attributes.

4. TAX ADJUSTMENTS

In the event that the DCHSI Group's consolidated federal income tax return is adjusted for any period or periods for which this Agreement is effective, whether by means of an amended return, claim for refund, determination by the Internal Revenue Service or otherwise, the liability of the Members pursuant to this Agreement shall be redetermined to give effect to any such adjustment as if it had been made as part of the original computation of tax liability, and any resulting payment thereby required to or from the Members pursuant to this Agreement shall be made within sixty (60) days after the payment or receipt (or crediting) of such adjustment.

5. FOREIGN, STATE AND LOCAL INCOME TAXES

In the case of foreign, state or local taxes based on or measured by the net income of the DCHSI Group on a combined, consolidated or unitary basis, the provisions of this Agreement shall apply with equal force to such foreign, state or local tax.

6. INTEREST

Any payment required to be made under this Agreement which is not timely made shall bear interest from the date such payment was required to be made at the rate and in the manner provided in the Code for interest on underpayments and overpayments, respectively, for federal income tax.

7. PAYMENT OF GROUP TAX

All payments of federal income tax owed by the DCHSI Group shall be paid to the Internal Revenue Service by DCHSI (unless a Member is directed by DCHSI to make such payments directly to the Internal Revenue Service on behalf of the DCHSI Group).

8. PRIORITY OF AGREEMENT

The provisions of this Agreement shall fix the liability of each Member to the other as to the matters covered herein, notwithstanding that such provisions are not controlling for tax or other purposes, including, but not limited to, the computation of earnings and profits for federal income tax purposes, and notwithstanding whether DCHSI and other corporations which are now, or which from time to time may become, members of the DCHSI Group enter into other arrangements for the allocation of a portion of the total tax liability of the DCHSI Group which is allocable to the Members.

9. DURATION

This Agreement shall remain in effect as to each Member for so long as such Member is a member of the DCHSI Group and the DCHSI Group files a consolidated income tax return. Thereafter, each Member shall be entitled to receive and be obligated to pay, any amounts subsequently determined to be refundable or owing pursuant to this Agreement as of the date of termination.

10. AMENDMENTS

This Agreement may only be amended by the mutual consent of the undersigned Members.

11. TERMINATION OF PRIOR AGREEMENTS

The Members hereby consent and agree to the termination of any prior agreements relating to allocation of taxes as of the effective date of this Agreement.

12. NEW MEMBERS

The parties hereto recognize that from time to time other companies may become members of the DCHSI Group and hereby agree that such new members may become parties to this Agreement (and hence, "Members", as defined for purposes of this Agreement) by executing a copy of this Agreement.

13. BINDING EFFECT

This Agreement shall bind and inure to the respective successors and assigns of the parties hereto, provided that no assignment shall relieve any party's obligations hereunder without the written consent of the other party.

14. CONTROLLING LAW

This Agreement is made under the laws of the District of Columbia, which shall be controlling in all matters relating to interpretation, construction or enforcement hereof.

15. HEADINGS

The headings in this Agreement are inserted for convenience only and shall not be deemed for any purposes to constitute a part or to affect the interpretation of this Agreement.

16. COUNTERPARTS

This Agreement or any amendment hereto may be signed in any number of counterparts, each of which shall be an original, but all of which taken together shall constitute one agreement or amendment, as the case may be.

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INTENDING TO BE LEGALLY BOUND, each party to this Agreement has caused this Agreement to be executed by its duly authorized officer as of the date first above written.

DC HEALTHCARE SYSTEMS, INC.

By: 

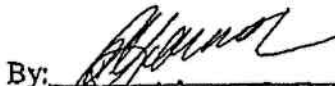
Name:

J. ROBERT E. THOMPSON

Title:

CHAIRMAN AND CEO

DC CHARTERED HEALTH PLAN, INC.

By: 

Name:

GABRIEL HANNA

Title:

SENIOR VP AND CFO

INDEMNIFICATION AND HOLDS HARMLESS UNDERTAKING

Loan from Cardinal Bank, to D.C. Healthcare Systems, Inc. for the Settlement of *District of Columbia v. D.C. Chartered Health Plan, Inc.* et al. 2008 CA 0001976 B

JEFFREY E. THOMPSON, an individual and resident of the District of Columbia, (referred to as Thompson) and D.C. CHARTERED HEALTH PLAN, INC., (referred to as the Corporation), shall each guarantee the above referenced Loan in the principal amount of Twelve Million Dollars (\$12,000,000.00) from Cardinal Bank (referred to as Lender) to D.C. Healthcare Systems, Inc., the sole shareholder of the Corporation.

The guaranty of the Corporation is limited to a pledge of its right, title and interest in a certain Account No. 1050002002 held in the name of the Corporation at Cardinal Trust and Investments and managed by Wilson/Bennett Capital Management, Inc. The Account is held as collateral (referred to as Collateral) for the Loan. The rights of Lender with respect to the Collateral are set forth in and subject to a Pledge and Security Agreement and Guaranty each of which is dated October 10, 2008 and executed by the Corporation.

Subject to the terms of this Undertaking, if the Lender duly exercises its rights against the Collateral under the Pledge and Security Agreement and Guaranty, Thompson shall irrevocably and unconditionally hold the Corporation completely harmless and indemnify the Corporation for any monies that the Corporation is or may be obligated to pay in connection with any such exercise of rights by the Lender, including but not limited to any liquidation of the Collateral.

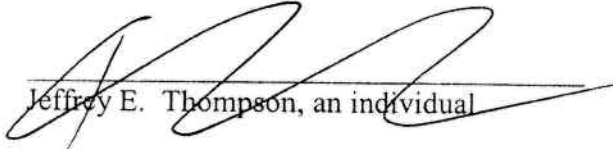
Thompson waives any rights or defenses he has or may have under any statute, common law or equitable theory which has or may have the effect of enabling him to avoid, restrict or impair any liability or obligation that arises from or is incident to this Undertaking.

This Undertaking is intended to be and shall be construed as an assumption of the primary liability that the Corporation has or may have under the Pledge and Security Agreement and the Guaranty. The Corporation shall not be obligated to provide any notice or demand as a condition to or a predicate for the liability of Thompson in connection with this Undertaking.

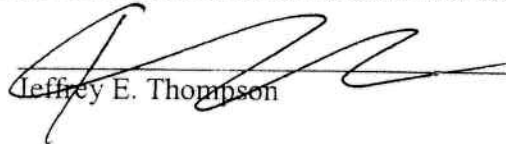
This Undertaking takes effect when the Loan closes and remains in full force and effect for so long as the Loan or any sums owed under the Loan remain due and owing.

Dated: October 10, 2008

District of Columbia :ss.


Jeffrey E. Thompson, an individual

I, JEFFREY E. THOMPSON, a resident of the District of Columbia and over the age of 18 years, being duly sworn, affirm and verify that the foregoing Undertaking is my voluntary act and deed and that I understand the obligations I have incurred in connection with the Undertaking.


Jeffrey E. Thompson

Subscribed and sworn before me this 10th day of October 2008 the District of Columbia.


Notary Public
My commission expires:

Maureen Smith
Notary Public District of Columbia
My Commission Expires 10/14/2012